A guide to successfully selling a business

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Much of my 20-year career in public accounting has been spent advising clients on the value of their enterprises and assisting them on harvesting that value upon exit. During that time I have noticed consistent behavioral patterns and reactions during the transaction.

After some study I have organized these occurrences and created my own acronym for sharing with new clients about to embark upon the journey of selling their businesses. It is as follows:

ARBITRATE.

A is for Appropriate. In short, when should a business owner think about selling their business? Ideally an owner begins thinking about this immediately after buying or starting an enterprise. Most owners, however, do not. Since "timing is everything" I would rather have 30 months over 30 days — exit strategies require time to implement. If a disposition must be forced, it always favors the buyer's position at a full discount to the seller. Expect to give yourself at least two to three years.

R is for Reason. Understand why you are selling and memorialize those reasons in writing. Your reasons should not change but your emotions will be on a roller coaster. I have seen seller's remorse assert itself time after time. Whether it's selling off a birthright or your future legacy, there will no doubt be times an owner questions his decision. If the rationale has been clearly established this will most certainly help during those periods of self doubt.

B is for Buyers. If you are a buyer, think like a buyer. If you are a seller, think like a buyer. Buyers should not pay for potential but rather what is available today. In too many instances I've witnessed sellers who wanted a price for their business that was based more on what their retirement needs were than what cash flow was available to support a buyer's purchase decision. Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) is a critical metric. Both parties should be intimately familiar with this concept and act accordingly.

I is for Investment. Understand that there will be a sizable investment of time and money required. This is in direct proportion to the efforts that will and should be expended. It is not unusual for transaction costs to range from 2 to 5 percent of the purchase price on deals over $5 million. Smaller price deals will have even higher percentages, sometimes as high as 15 to 20 percent. And this does not include the time of the seller's employees spent assisting in the process. Remember: You pay for what you get and this is no time to decide to become thrifty.

T is for Time. All sellers need time to organize and sanitize their records. Beyond the obvious financial statements and tax returns, this can include fleet records, warranty documentation, personnel records, licensing and rental agreements, corporate governance, employment contracts, non-compete agreements, annual information filings and purchase agreements to name a few. Savvy buyers will have established litmus tests and probe in a manner that allows them to proceed efficiently. If you do not have this material organized and ready for show they will move on to the next seller.

R is for Review your approaches. There are only three approaches in valuing a business. There is the asset approach, income approach and market/investment approach. Understand what it is that you are selling and price your business with this in mind. Seek out folks who are experienced with valuations to assist you with this consideration.

A is for Advisers. Are your advisers going to be friend or foe in the process? Accountants, while great in helping you run the day to day operations and assisting with the compliance requirements, may feel a sense of loss should you no longer need their annual services. Attorneys are a requisite but if brought into the discussions too early can cause sellers to become defensive minded and turn them off on the deal. This is where experience matters. Do not hesitate to have the best available players on your team.

T is for Taxes. Taxes should not drive deals any more than a tail should wag the dog. Don't misunderstand me — taxes are very important and must be considered as such, but in due time. Much can be done to reduce the tax bite but they should be discussed at the appropriate moment. They should not be the leadoff topic in your negotiations. And remember buyers: if taxes are driving your decision, what Congress gives in tax relief it can take away as well.

E is for Emotions. Expect numerous highs as well as lows during the negotiations and selling process. Try to enjoy and even savor the experience. You are only going to get one kick at the can and it will be over before you know it. Remember, you cannot unbreak an egg. Once it is cracked and opened you have certain options that remain. The same can be said for making a decision to move forward with selling your business.

Good luck in your quest.

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